How to Explain the CDHP to Clients:

Quick Reference Definitions & Facts Clients Need to Know

The Consumer-Driven Health Plan Equation

A Consumer-Driven Health Plan (CDHP) is a qualifying High-Deductible Health Plan (HDHP) paired with a tax-advantaged Health Savings Account (HSA) or Flexible Spending Account (FSA).

HDHP Qualifying High-Deductible Health Plan + **HSA / FSA** Tax-Advantaged Account = **CDHP** Consumer-Driven Health Plan

HSA-Qualifying High-Deductible Health Plan

A High-Deductible Health Plan (HDHP) is a health plan defined by a lower monthly premium and a higher deductible.

An HSA-qualifying HDHP has a **minimum deductible** and a **maximum for out-of-pocket expenses.**

2021
Minimum Deductible
$1,400
Maximum Out-of-Pocket
$7,000

2021
Minimum Deductible
$2,800
Maximum Out-of-Pocket
$14,000

5 HDHP Facts Clients Need to Know

- An HDHP is a health plan defined by a lower monthly premium and a higher deductible.
- All preventive care is covered before the deductible.
- Not all HDHPs can work with an HSA and be a CDHP.[1]
- An HSA-qualifying HDHP has a minimum deductible and a maximum for out-of-pocket expenses.
- The individual pays for healthcare costs, up to the deductible, before insurance pays for services.

Tax-Advantaged Accounts: HSA & FSA

Health Savings Account

A Health Savings Account (HSA) is a savings account that allows the account holder to set aside money on a pre-tax basis to pay for qualified medical expenses.

The contributions are *tax-deductible and never expire*. So they can be saved to build a healthcare safety net, for use during retirement, or to help pay for yearly expected medical costs.

6 Requirements to Open & Contribute to an HSA

- Enrolled in an HSA-qualifying HDHP.
- No other supplemental health insurance coverage.
- Must not be eligible for or enrolled in Medicare (Part A and Part B) or Medicaid.
- Must be under the age of 65.
- An employee can't be claimed as a dependent on someone else's tax return.
- An employee with a Flexible Spending Account can't open or contribute to an HSA.[2]

2021 Contribution Limits (Under Age 55)

individual **$3,600**

family **$7,200**

Catch-up (Age 55+): $1,000

5 HSA Facts Clients Need to Know

- There are six criteria for qualifying for opening and contributing to an HSA.
- An HSA offers triple tax savings: pre-tax or tax-deductible contributions, tax-free interest and investment earnings, and tax-free distributions for qualified medical expenses.
- The IRS determines the amount of money that can be contributed annually.
- The account holder, employer, and basically anyone (even friends & family) can contribute money to an HSA.
- The contributions are tax-deductible and never expire. So they can be saved to build a healthcare safety net, for use during retirement, or to help pay for yearly expected medical costs.

1 Check the HDHP plan to make sure it meets the IRS guidelines.

2 HSA account holders are allowed to have a Limited-Purpose FSA (LPFSA) for dental and vision if the HDHP doesn't cover those services.

Flexible Spending Account

A Flexible Spending Account (FSA)—also known as a medical FSA or healthcare FSA—is an employer-provided spending account for eligible medical expenses in which the annual funds are available on the first day of the benefit year.

This enables employees *access to funds upfront* rather than waiting for them to accumulate. Pre-tax dollars are put aside from each paycheck for the FSA.

FSA Eligibility Rules

- Employees can't contribute to an FSA and an HSA at the same time.
- The FSA doesn't need to be paired with a specific health insurance plan, like an HDHP.

Special Considerations for 2021

The Consolidated Appropriations Act of 2021 bill modified how FSAs can be administered for the plan year ending in 2021. Each of these changes are at the discretion of the employer and must be reflected in updated plan documents:

- Flexible Spending Accounts may permit full carryover of unused amounts or a 12-month grace period with no penalty.
- An employee ending their FSA participation may spend unused funds for the remainder of the plan year.
- Employers may permit employees to change elections without experiencing a qualifying life event.
- Employers may make retroactive amendments to accommodate any of these changes to the rules.

2021 Per Person Contribution Limits

individual **$2,750**

Maximum Allowable Carryover: $550

6 FSA Facts Clients Need to Know

- There are two eligibility rules for opening and contributing to an FSA.
- An FSA—also known as a medical FSA or healthcare FSA—is an employer-provided spending account.
- Pre-tax dollars are put aside from each paycheck for the FSA, and the employer may also choose to contribute.
- Funds are used to pay for qualifying expenses, such as medical care, health-related products, and other services.
- If the employee has a balance at the end of the year, the employer can provide a rollover or grace period. If neither option is available or used, the funds are forfeited to the employer.
- See Special Considerations for 2021, above, for possible FSA modifications.